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WESTERN EUROPE DIVISION  
OFFICE OF REPORTS AND ESTIMATES  
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

DIVISION WEEKLY

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Included in this issue are special articles on:

1. Inadequate French Economic Progress  
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WESTERN EUROPE DIVISION

WEEKLY SUMMARY

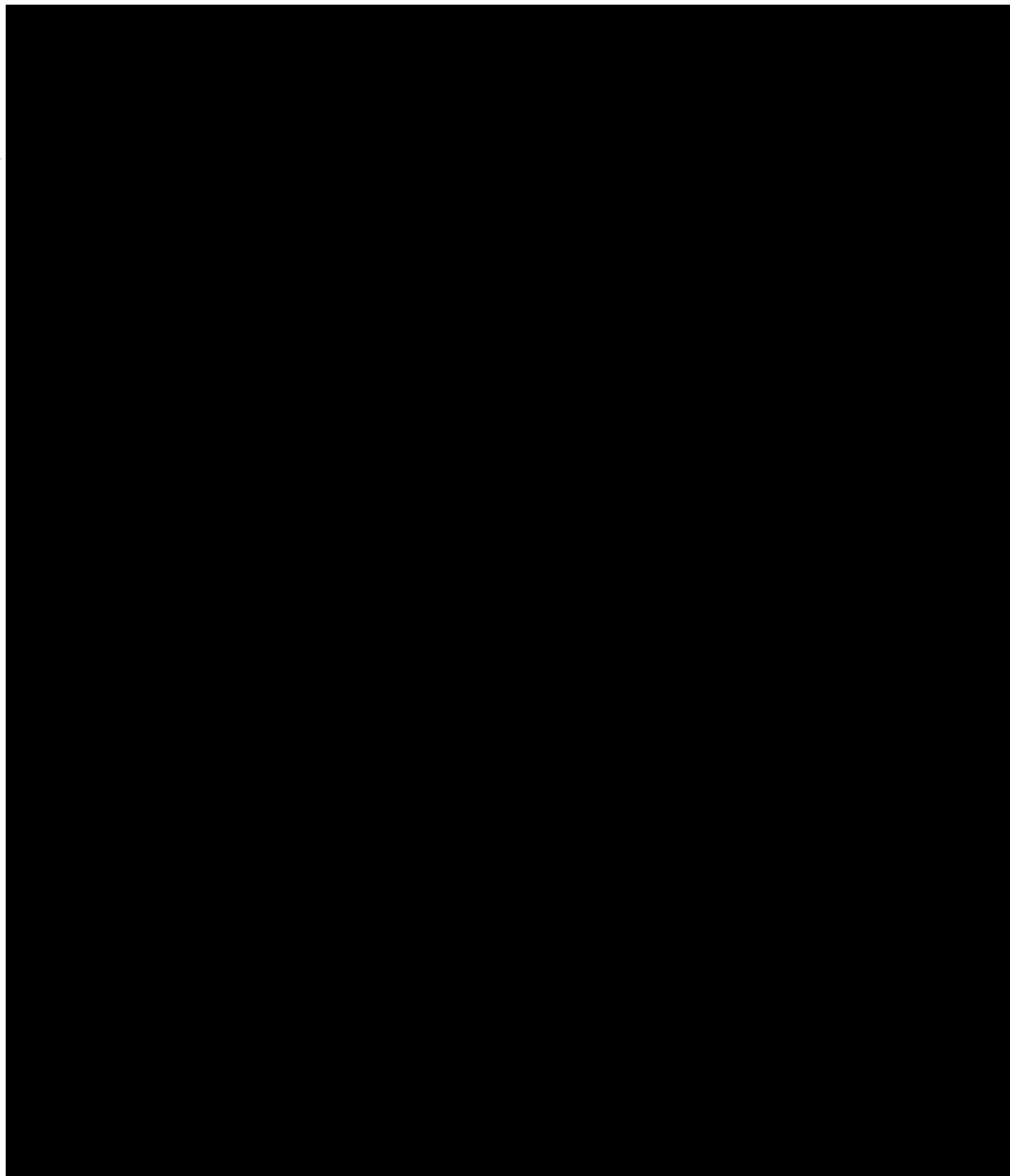
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AUSTRIA

B Internal conflicts within the Austrian People's Party will  
probably be clearly demonstrated in the forthcoming party congress.  
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program. Within the People's Party, which is a combination of industrial, farmer, and white collar interests, increasing discord has been recently evidenced, between the Economic League of the industrialists, on the one hand, and both the Peasant League of the farmers and the weak League of Workers on the other. Because the Party depends for financial and popular support mainly on the industrialists and the farmers, it appears unlikely that party politicians will permit disunity to develop further between these two strong elements. Furthermore, a compromise program is also necessitated by the party's participation in a coalition government with the Socialists.

The Workers League, however, will probably face a continuing, though submerged, campaign directed at lessening its influence in internal party politics. Although the influence of the Workers League was strengthened by its showing in the October national elections, this very fact appears to have prompted the efforts by the Economic League to throttle labor criticism within the party of its economic policy. The Workers League is the party exponent of more liberal labor programs, retention of governmental controls, and price reductions.

There is probably little chance that the People's Party will suffer any serious split arising from the conflict between the industrialists and workers. The leaders of the Workers League probably realize that their group is too weak to withdraw from the party and stand on its own feet, and the Economic League will probably prefer to maintain the facade of party solidarity against the Socialist Party.

#### FRANCE

A Communist efforts to use French labor for political objectives in the "peace campaign" against the delivery of M4AP arms will probably increase in the next few weeks, but will have only limited success. The weight of the Communist offensive will be directed primarily against the port and railway workers in Cherbourg, which has been selected as the principal delivery port. The organization of Communist strength there is still in the planning stage, but probably strong-arm tactics will be employed. French military authorities are prepared, however, to suppress any Communist disruptions. Diminished traffic at Cherbourg over a protracted period has created considerable unemployment. The prospect of relief through large-scale military shipments was a major factor making a success of the Force Ouvriere's appeal to the dock workers to vote, in the recent General Confederation of Labor (CGT) poll, in favor of unloading defense equipment.

The French Communist Party, now operating on reduced funds, will probably be given sizeable financial backing through the World Federation of Trade Unions for its campaign. Although the assurance of financial aid to strikers will overcome some of labor's passivity toward the "peace campaign", Communist appeals will probably have little success in the Cherbourg area. Aside from the sentiments of the dockers, FO influence among laborers on the main railway line serving the port, 70% of whom are unorganized, is substantially greater than that of the CGT.

#### FRENCH AND SPANISH NORTH AND WEST AFRICA

8 French plans calling for the hasty establishment of a limited measure of internal self-government for the Fezzan are likely to run counter to the over-all program envisaged by the UN for an independent Libya by 1952. The plans are viewed with apprehension by the newly-appointed UN Commissioner for Libya, who fears adverse reactions among the local population. Furthermore, implementation of the plans will provide unexpected justification for both nationalists and Communists in Tunisia and Algeria, and even in more remote Morocco, to propagandize and demonstrate against continued French control of North Africa.

The French contemplate a political arrangement, effective by mid-February, involving a Government of six appointed councillors to deal with domestic affairs and internal security, assisted by an elected consultative assembly similar to that in Algeria. Both council and assembly would be under a French-selected chief of state, subject to the approval of the local tribes and villages. Foreign affairs and defense would be reserved to the administering authority, France, in the person of a Resident General, as in Morocco.

Such an arrangement might be regarded as placing the Fezzan in a position similar to that of a French protectorate, like Tunisia or Morocco, and would be suspiciously suggestive of a scheme for eventual annexation to Algeria.

#### THE NETHERLANDS

A High Dutch officials in Indonesia probably will be able to obtain the reluctant cooperation of the Dutch military leaders with the Indonesian attempts to put an end to the guerrilla activities of former Captain Westerling of the Netherlands Indonesian Army (KNIL). The Netherlands Government is thoroughly supported by Dutch public opinion in its desire to assist the Indonesians in eliminating the dangerously disruptive influence of Westerling and his followers, many of whom are Indonesian

deserters from the KNIL. The Dutch forces undoubtedly will not be called upon to act directly against the Westerling group, unless the Indonesians become convinced that they cannot handle the situation themselves. Nevertheless, the Dutch may be asked to assume more extensive guard duties and other non-combat functions, to release as many Indonesians as possible for measures against Westerling and other guerrilla groups. If the Dutch take stern measures against KNIL deserters, and if the Indonesian Army program to incorporate volunteers from the KNIL is successful, Westerling's attraction for KNIL troops probably will be counteracted.

B The stability of the Netherlands Catholic-Labor coalition Government probably is assured for a time because of what seems to be a tacit Catholic-Labor agreement on economic policy. Although the more conservative Catholic Party currently seems to dominate the formulation of economic measures, Labor Party officials probably will continue to be pacified by economic arrangements, which have included an increase in some subsidy payments for six months and small wage increases to meet the rise in the cost of living since devaluation. Any substantial decline in the real income of workers, however, coupled with lessened Government control of the economy, may lead to renewed Catholic-labor conflict over economic measures.

There is a possibility that the two Cabinet members from small rightist parties, not wholly representative of their parties' policies, may resign, in which case the stability of the Catholic-Labor combination will be further improved. In addition, the greater advantages to the Labor Party of remaining in the Government, the existence within the Catholic Party of a substantial pre-labor group, and the difficulty for the Catholic Party to form a stable coalition with parties other than Labor all are likely to lead to a continuation of compromise agreements.

#### ITALY

A The Communist campaign to cripple Italy's military rehabilitation will begin soon, and may have local success. A recent declaration by Luigi Longo, leader of the "direct action" group in the Italian Communist Party, to the effect that the unloading of US arms and the transformation of industries from peace to war production must be prevented, indicates that the Communist plan of action will stress disruption of port and railroad traffic and the output of heavy industries.

Although the Communists do not effectively control the port workers in the south Italian ports, their strength in most of the northern ports would enable them to interfere seriously with the unloading there of MDAP shipments. The Communist-controlled port workers in Genoa, La Spezia, Savona, and

Ancona have already pledged themselves not to handle such cargoes, and it is believed that strike orders have already been issued in all ports.

In order to complete the obstruction of MDAP shipments, sympathy strikes among the railroad workers are a distinct possibility. In view, however, of the spotty nature of Communist control of railroad workers, it is doubtful whether the Communists could do more than tie up transportation out of Genoa and Leghorn.

It is among the workers of the north Italian heavy industries, who are nursing valid economic grievances, that the Communist campaign is likely to achieve a substantial degree of success. In this sector of the economy, widespread strikes and sabotage are anticipated under the direction of Communist-dominated "committees for defense of peace". In several Genoa plants these committees are currently pledging that they will not construct war materiel of any kind.

Although the progress made by the non-Communist labor organizations among the port workers in southern Italy and the railroad workers may prevent Communist agitation from achieving nation-wide success, it will not alone be sufficient to combat effectively the extreme Left's campaign. Prompt, energetic action by the Italian Government in mediating labor disputes over valid economic issues and in educating the workers in the real objectives of the Atlantic Pact and MDAP would do much to weaken the Communist appeal to labor. The Government would thereby increase its popular prestige and could better isolate for effective police action die-hard Communist elements preparing to operate under the "direct action" policy.

B The Italian Government may be forced to reduce its undue emphasis upon emigration as a basic solution to its very serious unemployment problem. Socio-political pressures, as well as economic necessity, may belatedly force a more realistic concentration upon new investment and other internal measures to reduce unemployment, the real extent of which may represent 20-25% of employable man-years.

Emigration during 1949 fell far short of the projected 200,000, despite vigorous efforts to find outlets. The outlook for 1950 is even poorer. However, even if adequate outlets were found for the present population increment of about 400,000 per year, it would be the more skilled industrial workers and energetic farmers who would, for the most part, be demanded by the receiving country. The loss to Italy of its more efficient workers would cause further dislocation in the economy, and would increase the labor costs of production without necessarily reducing unemployment.

While the Government has attempted to push emigration vigorously, it has not pursued an aggressive investment and

investment-stimulating policy which would create new jobs. Although the Government's investment and credit policy has served to maintain a stable currency, the stability has been obtained at the expense of an expanding economy. Despite progress under the ERP, the structural defects of the economy have set narrow limits on this progress. The situation is reflected in Italy's current failure to absorb fully ERP aid.

The dangers of the unemployment situation have been most recently indicated by the Milan, Modena, and Rome riots over the discharge of surplus workers. These riots are representative of what could happen on a larger scale, unless the Government launches a more fundamental and aggressive attack upon the problem than the promotion of emigration or financial stability. In fact, ECA's warning of a possible cut-back of \$70-100 million in 1949-50 allocations has already galvanized the Italian Government into "paper action": plans for a 945-billion-lire over-all investment for 1950-51, plus 120 billion lire especially for southern Italy. Past performance, however, compels serious doubt of both the time and extent of the implementation of these paper proposals.

#### VATICAN

B Whether the international Catholic labor organization (CISC) should be dissolved so that it may amalgamate with the new non-Communist labor international (ICFTU) is a serious problem for the Vatican. The traditional policy of the Holy See, as laid down by papal encyclicals and expounded in papal discourse, has been to maintain the separation of Catholic organizations, including labor groups, from non-Catholic organizations in the same field. It was believed that only by such separation could the Catholic groups maintain their integrity and pursue their special goals. Since World War II, however, local Catholic labor groups in western Europe, recognizing the increased potentiality of Communism, have tended to work more closely with other non-Communist labor unions, presumably with the approval of the Vatican.

Divergence of opinion within the CISC as to whether the organization should disband and its members join the new labor international may parallel divergent views on this issue within the Vatican. The current decline in the influence of Communist labor reduces the pressure for non-Communist labor unification. It can be expected that the Vatican will favor close cooperation between the two non-Communist labor internationals, rather than complete integration, particularly because of the Vatican fear that a consolidated group would be dominated by the Socialists. In any case, Vatican leaders will avoid official pronouncements:



(1) against such integration, to avoid alienating labor groups in the US and elsewhere that strongly support the new international and the US concept of "neutral" trade unionism; and (2) in favor of such integration, to avoid possible dissolution of the Catholic-labor international before the new labor international has had time to demonstrate its long-range capabilities.

#### SPAIN

B The Spanish Government's decision to publish the full text of Secretary Acheson's letter to Congressional leaders appears to have been motivated by a desire to counteract the over-optimism about the prospects of US financial aid that followed earlier publication of only those portions of the letter favorable to the Franco regime. These excerpts were accompanied by editorial acclaim of the alleged "rectification" of US policy leading to jubilant interpretations of the news as an almost definite assurance of immediate financial help. In order to arouse xenophobia to forestall a possible reaction unfavorable to the regime, should the tenor of the suppressed portions of the letter become known, the Franco Government decided to reveal Acheson's full statement. This was published before foreign press criticism on Spain's distortion and suppression of the text could become widespread, and too soon for official US comment to be received. The full text was described in accompanying editorials as an "odious example of foreign interference". Release of the letter, designed to rally public support around the regime, probably will have some temporary effectiveness in encouraging patience among the Spanish army and bureaucracy, while the Government continues its quest for economic aid from foreign sources.

SPECIAL ARTICLE

INADEQUATE FRENCH ECONOMIC PROGRESS

A French economic progress in 1949 was clearly inadequate for the attainment of long-term US objectives in western Europe, and any remedial policies which the US might propose to the French would not find effective support in France in 1950.

The French achievement in expanding industrial production, improving financial stability, and reducing the deficit in the non-dollar foreign payments account was outstanding. A far greater effort, however, is necessary in order to insure these gains and also strengthen the weaker sectors of the economy -- agricultural output, private investment, housing construction, and the dollar account. For more solid results the economy must be placed on a much more efficient and dynamic basis by a revolution in the thinking of those influential in government and private enterprise.

The expansion of production in 1949 was, in the main, due to factors which were probably temporary. These included large-scale US aid, the continuance, by and large, of a seller's market, broad protection against foreign competition, steady wages, and the relative stability of the Queuille Government. Production was not aided by any important departures from restrictive customs or prejudices, or by any great imaginative efforts by the Government, business, or labor. All economic groups were obsessed with their own security, to which end the Government was forced to give primary consideration. Thus, there was little enthusiasm for cooperation to achieve long-term goals. The French were vulnerable to the charge of taking advantage of ECA aid to postpone essential, basic decisions.

The recommendations of the ECA Mission to France for a basic French program to meet long-term needs are: (1) the consolidation of the financial stability so far achieved, by fighting the prevailing inflationary mentality, sharply limiting credit, making industry more cost-conscious, freeing imports, and economizing on public expenditures; (2) the organization of a powerful drive for higher productivity (output per man-hour), chiefly by a broad educational process; and (3) the restoration of a

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belief in social justice, especially by a sweeping reform of the fiscal system. There is little likelihood, however, that any of these recommended policies, even if adopted by the French, would achieve important results in 1950, in view especially of the stubborn psychological blocks and the outlook for prolonged Governmental weakness. In addition, such policies would be seriously hampered by the imminent increase in the general wage level, the growing and widespread fears of foreign competition, the Government's sacrifice of agricultural to industrial investment needs, the inadequacy of private investment, and the anticipated long-term labor unrest.

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